

# **FRANCIS MARION UNIVERSITY**

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## **Independent Auditors' Report**

**Financial Statements and Schedules  
For the Year Ended June 30, 2013**

# FRANCIS MARION UNIVERSITY

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Independent Auditors' Report

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Francis Marion University, a discretely presented component unit of State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of Francis Marion University Foundation (a discretely presented component unit). The Francis Marion University Foundation reflects 100% of total assets, 100% of net assets, and 100% of total revenues of the discretely presented component unit.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Francis Marion University Foundation, which represent 100% of total assets, 100% of net assets, and 100% of total revenue of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Francis Marion University Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Francis Marion University Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Francis Marion University as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, GASB Statement No. 61 as implemented by the State of South Carolina during fiscal year 2013, changed the manner in which the University is reported in the State of South Carolina's Comprehensive Annual Financial Report to a discretely presented component unit. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, in 2013, the University adopted accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

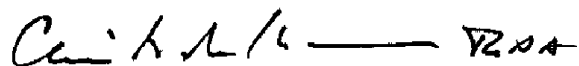
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Francis Marion University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Cynthia A. Rosa". The signature is written in a cursive, flowing style with a horizontal line extending from the middle of the name.

Gaffney, SC  
September 13, 2013

# FRANCIS MARION UNIVERSITY

## Management's Discussion and Analysis

### ***Overview of the Financial Statements and Financial Analysis***

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2013 with selected comparative information for the year ended June 30, 2012. This discussion is presented along with financial statements and related footnote disclosures of the University and its component unit. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component unit are available from management of the component unit. The report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

### ***Statement of Net Position***

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement and its purpose is to present to the readers of the financial

statements a fiscal snapshot of Francis Marion University. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets position (assets minus liabilities). Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

## Condensed Statement of Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current assets	\$ 11,829,527	\$ 13,239,168	\$ (1,409,641)	(10.65%)
Capital assets, net of accumulated depreciation	72,504,558	74,657,863	(2,153,305)	(2.88%)
Other noncurrent assets	3,061,260	3,530,515	(469,255)	(13.29%)
<b>Total assets</b>	<b>87,395,345</b>	<b>91,427,546</b>	<b>(4,032,201)</b>	<b>(4.41%)</b>
<b>Liabilities:</b>				
Current liabilities	3,368,475	4,180,479	(812,004)	(19.42%)
Noncurrent liabilities	11,996,084	12,335,152	(339,068)	(2.75%)
<b>Total liabilities</b>	<b>15,364,559</b>	<b>16,515,631</b>	<b>(1,151,072)</b>	<b>(6.97%)</b>
<b>Net position:</b>				
Net investment in capital assets	64,739,550	66,578,059	(1,838,509)	(2.76%)
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	2,115,342	1,088,964	1,026,378	94.25%
Unrestricted	4,975,894	7,044,892	(2,068,998)	(29.37%)
<b>Total net position</b>	<b>\$ 72,030,786</b>	<b>\$ 74,911,915</b>	<b>\$ (2,881,129)</b>	<b>(3.85%)</b>

The Statement of Net Position shows a decrease in assets and a decrease in liabilities resulting in an overall decrease in net position. Significant changes on the Statement of Net Position are as follows:

- Total assets of the University decreased by \$4.03 million.
- The decrease in current assets is largely due to a reduction in unrestricted cash resulting from deferred maintenance projects.
- The decrease in capital assets is attributable to the completion of substantial building projects in 2012 that are now being depreciated.
- Total liabilities decreased by \$1.2 million.
- A decrease in current liabilities is largely due to a decrease in accounts payable. Payables for construction projects decreased in 2013 with the completion of the athletic complex and office services building.
- The decrease in noncurrent liabilities is largely due to a reduction in leases, notes and bonds payables.

- Total net position decreased by \$2.88 million. Unrestricted cash used for increases in salaries, benefits, and deferred maintenance projects created a reduction in unrestricted net assets.

### **Statement of Revenues, Expenses and Changes in Net Position**

Changes in total net assets as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature

directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Position is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an

entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

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### Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	Increase/ (Decrease)	Percent Change
<b>Revenues:</b>				
Student tuition and fees	\$ 20,347,023	\$ 21,142,056	\$ (795,033)	(3.76%)
Grants and contracts	9,053,827	7,928,248	1,125,579	14.20%
Sales and services	1,663,351	1,554,451	108,900	7.01%
Other operating revenues	996,136	921,664	74,472	8.08%
<b>Total operating revenues</b>	<b>32,060,337</b>	<b>31,546,419</b>	<b>513,918</b>	<b>1.63%</b>
State appropriations	12,161,995	10,668,277	1,493,718	14.00%
Grants	9,632,036	10,197,031	(564,995)	(5.54%)
Gifts	1,888,789	2,019,535	(130,746)	(6.47%)
Investment income (loss)	15,794	(15,395)	31,189	(202.59%)
Other nonoperating revenues	294,127	309,904	(15,777)	(5.09%)
<b>Total nonoperating revenues</b>	<b>23,992,741</b>	<b>23,179,352</b>	<b>813,389</b>	<b>3.51%</b>
<b>Total revenues</b>	<b>56,053,078</b>	<b>54,725,771</b>	<b>1,327,307</b>	<b>2.43%</b>
<b>Expenses:</b>				
Compensation and employee benefits	39,428,506	37,227,345	2,201,161	5.91%
Services and supplies	9,984,264	10,182,545	(198,281)	(1.95%)
Utilities	2,007,510	1,997,691	9,819	0.49%
Depreciation	3,461,150	3,030,459	430,691	14.21%
Scholarships	5,513,993	6,064,620	(550,627)	(9.08%)
<b>Total operating expenses</b>	<b>60,395,423</b>	<b>58,502,660</b>	<b>1,892,763</b>	<b>3.24%</b>
Interest expense	413,319	196,844	216,475	109.97%
<b>Total nonoperating expenses</b>	<b>413,319</b>	<b>196,844</b>	<b>216,475</b>	<b>109.97%</b>
<b>Total expenses</b>	<b>60,808,742</b>	<b>58,699,504</b>	<b>2,109,238</b>	<b>3.59%</b>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b>	<b>(4,755,664)</b>	<b>(3,973,733)</b>	<b>(781,931)</b>	<b>19.68%</b>
State capital appropriations	1,743,547	965,801	777,746	80.53%
Capital gifts	130,989	2,639,621	(2,508,632)	(95.04%)
<b>Increase (decrease) in net position</b>	<b>(2,881,128)</b>	<b>(368,311)</b>	<b>(2,512,817)</b>	<b>682.25%</b>
<b>Net position - beginning of year</b>	<b>74,911,914</b>	<b>75,280,226</b>	<b>(368,312)</b>	<b>(0.49%)</b>
<b>Net position - end of year</b>	<b>\$ 72,030,786</b>	<b>\$ 74,911,915</b>	<b>\$ (2,881,129)</b>	<b>(3.85%)</b>

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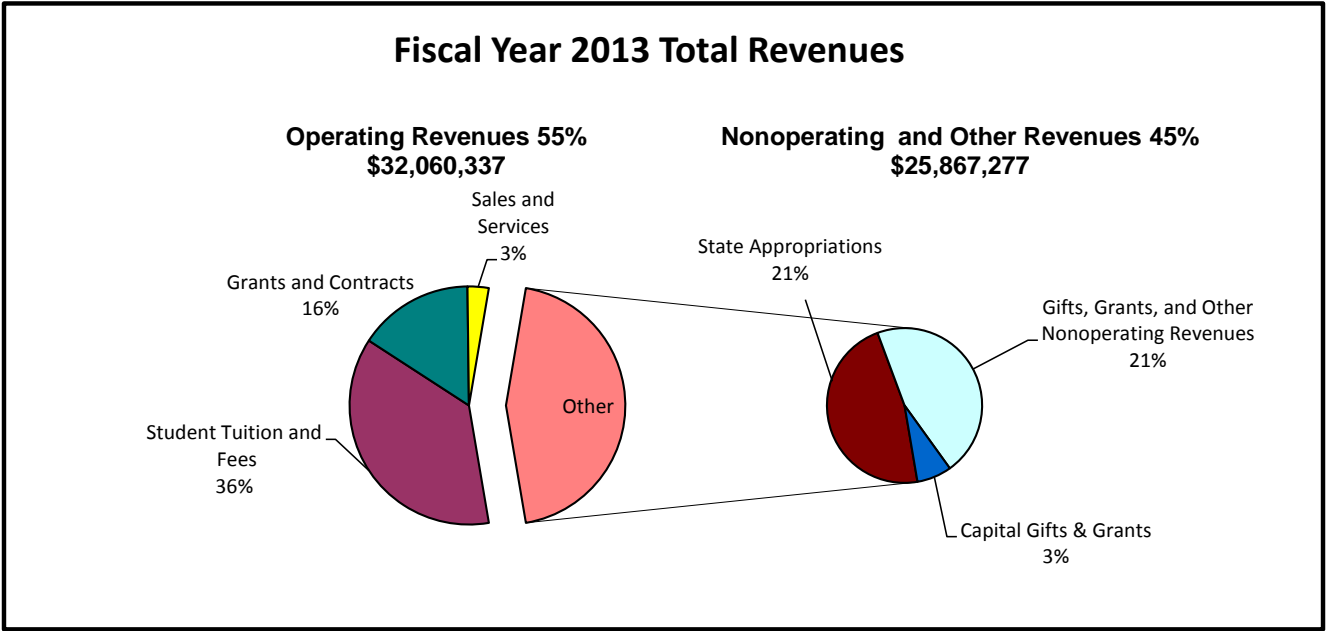
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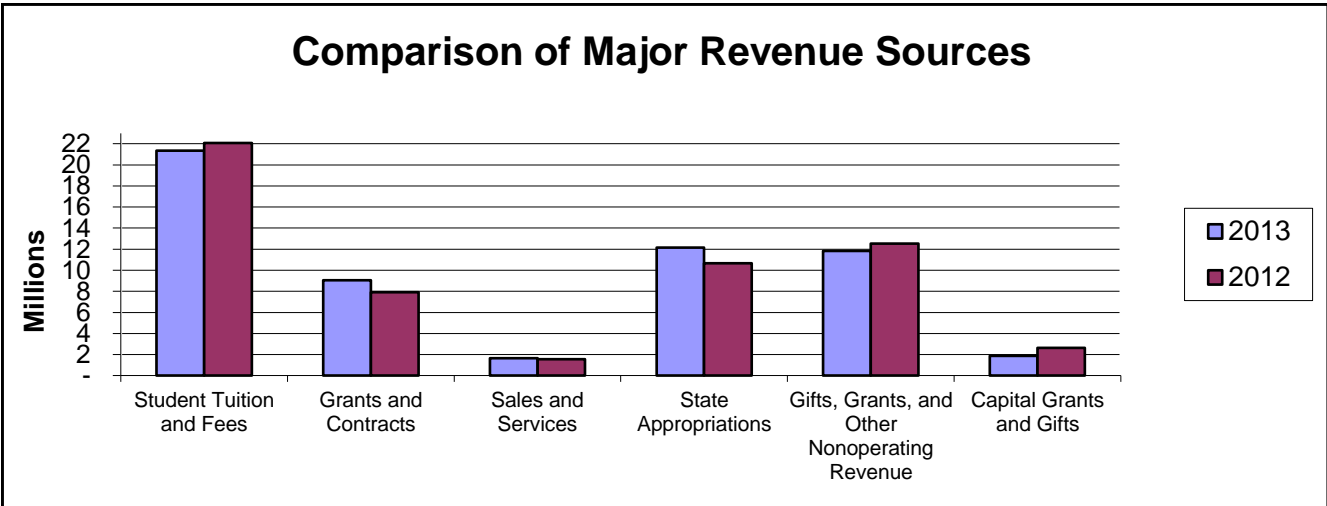
The Statement of Revenues, Expenses and Changes in Net Position reflects a decrease in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- The University experienced a \$500 thousand increase in operating revenues. This is largely due to an increase in state grants.
- The increase in non-operating revenue of approximately \$800 thousand is primarily due to the increase in state appropriations.
- The decrease in capital revenues resulted from gifts that were received in the prior year for the athletic complex. Capital appropriations were received from the State for restricted deferred maintenance projects.

The following graph presents the sources of revenue used to fund the University for the year.

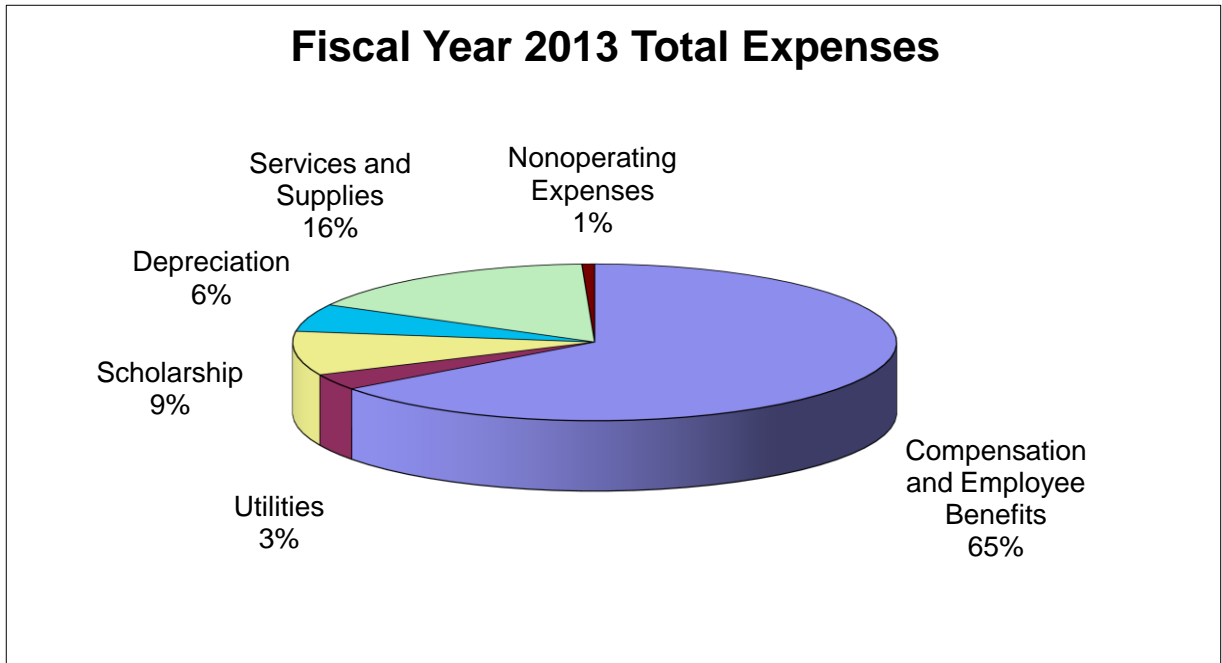


The graph below, comparing 2013 revenue sources to 2012, illustrates the changes in major revenue sources.

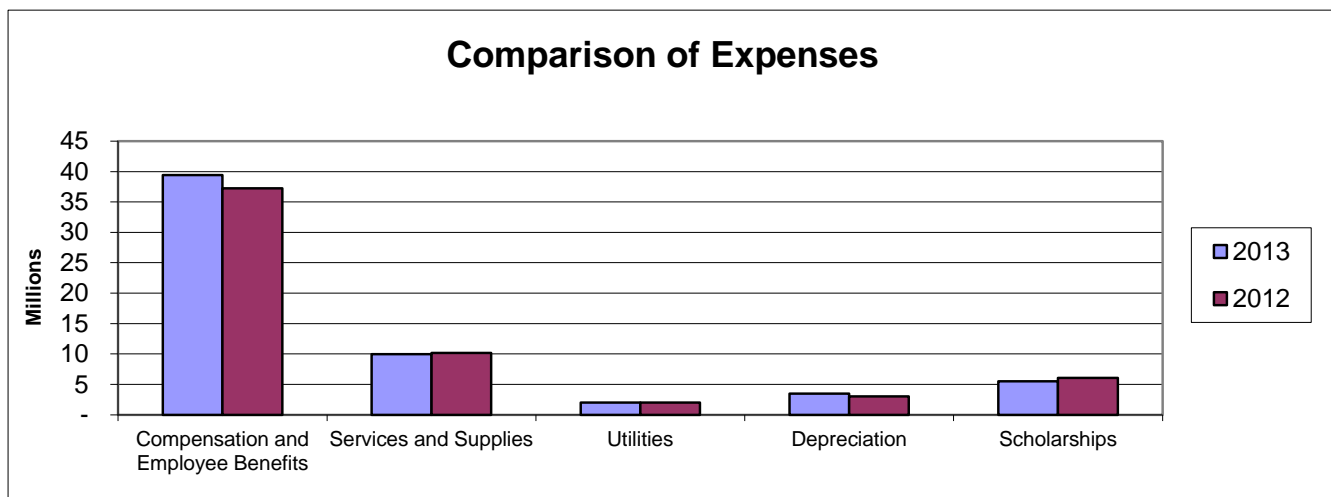


- Total operating expenses have increased \$1.9 million.
- The increase in compensation and employee benefits resulted from a 4.5% salary increase effective July 1, 2012.
- The increase in depreciation expense follows the completion of the athletic complex and the office services building.
- An increase in interest expense occurred because of the capitalization of interest on the athletic facilities revenue bonds in 2012.

The following graph displays expense categories.



The graph below compares 2013 expenses to the subsequent year and illustrates the changes in major expense types.



### ***Statement of Cash Flows***

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Position.

### ***Capital Assets and Debt***

Total capital assets net of depreciation for the University is \$72,504,558 at June 30, 2013.

Construction in progress of \$494,067 consists of payments for architect fees for a building for the schools of education and business. Please see note 6 of the financial statements for further details.

Debt on capital assets is \$7,765,008. Details of the bonds and capital leases are available in notes 12, 13, and 14.

### ***Economic Outlook***

As one of the state-supported universities of South Carolina, Francis Marion receives appropriations from the state and those appropriations were increased slightly this year and enrollment has been steady. The University's management will continue to monitor economic factors and make adjustments if needed to insure the overall financial position is sound.

The University's current financial position is stable and current appropriations and tuition are adequate to fund the operations for the ensuing year. The University does not plan to materially reduce operations or curtail any planned improvements.

**Francis Marion University**  
**Statement of Net Position**  
**June 30, 2013**

**ASSETS**

**Current Assets**

Cash and cash equivalents .....	\$ 8,294,377
Accounts receivable (net of allowance for doubtful accounts \$475,311) .....	2,418,587
Contributions receivable, net .....	123,479
Accrued interest receivable .....	17,648
Due from Francis Marion University Foundation .....	262,695
Prepaid expenses .....	712,741
<b>Total current assets</b> .....	<b>11,829,527</b>

**Noncurrent Assets**

Restricted cash and cash equivalents .....	646,654
Contributions receivable, net .....	540,511
Notes receivable - due from Francis Marion University Foundation .....	206,406
Perkins loans receivable .....	1,667,689
Capital assets, net of accumulated depreciation .....	72,504,558
<b>Total noncurrent assets</b> .....	<b>75,565,818</b>
<b>Total assets</b> .....	<b>87,395,345</b>

<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>-</b>
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**LIABILITIES**

**Current Liabilities**

Accounts payable .....	469,533
Accrued payroll and related liabilities .....	178,799
Accrued compensated absences - current portion .....	1,354,719
Accrued interest payable .....	31,955
Unearned revenues .....	429,235
Capital leases payable - current portion .....	30,274
Notes payable - current portion .....	31,543
Bonds payable - current portion .....	295,000
Deposits held for others .....	547,417
<b>Total current liabilities</b> .....	<b>3,368,475</b>

**Noncurrent Liabilities**

Accrued compensated absences .....	805,497
Unearned revenues .....	2,177,281
Capital leases payable .....	34,734
Notes leases payable .....	45,602
Bonds payable .....	7,405,000
Perkins liability .....	1,527,970
<b>Total noncurrent liabilities</b> .....	<b>11,996,084</b>
<b>Total liabilities</b> .....	<b>15,364,559</b>

<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>-</b>
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**NET POSITION**

Net Investment in capitalized assets .....	64,739,550
Restricted for	
Nonexpendable	
Scholarships and fellowships .....	200,000
Expendable	
Scholarships and fellowships .....	89,230
Instructional department uses .....	268,188
Loans .....	460,071
Capital projects .....	1,289,636
Other .....	8,217
Unrestricted .....	4,975,894
<b>Total net position</b> .....	<b>\$ 72,030,786</b>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2013**

**OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$13,898,735) .....	\$ 20,347,023
(of which \$667,591 of revenues are pledged for Athletic Facility Revenue Bonds)	
Federal grants and contracts .....	1,315,118
State grants and contracts .....	7,567,868
Local grants and contracts .....	13,296
Non-governmental grants and contracts .....	157,545
Sales and services of educational and other activities .....	480,791
Sales and services of auxiliary enterprises .....	1,182,560
Other operating revenues .....	996,136
<b>Total operating revenues</b> .....	<u>32,060,337</u>

**OPERATING EXPENSES**

Salaries and wages .....	30,044,442
Benefits .....	9,384,064
Supplies and other services .....	9,984,264
Utilities .....	2,007,510
Scholarships .....	5,513,993
Depreciation .....	3,461,150
<b>Total operating expenses</b> .....	<u>60,395,423</u>
<b>Operating income (loss)</b> .....	<u>(28,335,086)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations .....	12,161,995
Federal grants .....	9,632,036
Gifts .....	1,888,789
Investment income .....	15,793
Interest and other fees on capital asset related debt .....	(413,319)
Other nonoperating revenues (expense) .....	294,127
<b>Net nonoperating revenue</b> .....	<u>23,579,421</u>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b> .....	(4,755,665)
State capital appropriations .....	1,743,547
Capital gifts .....	130,989
<b>Increase (decrease) in net position</b> .....	<u>(2,881,129)</u>

<b>Net position - beginning of year</b> .....	74,911,915
<b>Net position - end of year</b> .....	<u><u>\$ 72,030,786</u></u>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees .....	\$ 20,399,223
Grants and contracts .....	8,850,906
Sales and services of educational and other activities .....	471,459
Sales and services of auxiliary enterprises .....	1,075,983
Receipts for reimbursements .....	4,493,316
Payments to suppliers .....	(13,556,611)
Payments to employees .....	(31,546,531)
Payments for benefits .....	(9,792,889)
Payments for scholarships .....	(5,517,588)
Loans to students .....	(248,960)
Collection of loans .....	240,872
Inflows from Federal direct lending loans .....	26,918,711
Outflows from Federal direct lending loans .....	(26,932,508)
Inflows from agency funds .....	11,964,949
Outflows from agency funds .....	(11,981,074)
Other receipts .....	1,385,514
<b>Net cash (used) by operating activities .....</b>	<b>(23,775,228)</b>

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES**

State appropriations .....	12,161,995
Nonoperating grants .....	9,632,036
Gifts .....	1,582,168
<b>Net cash flow provided by noncapital financing activities .....</b>	<b>23,376,199</b>

**CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State capital appropriations .....	1,288,338
Purchases of capital assets .....	(1,843,296)
Principal paid on bond payable .....	(280,000)
Principal paid on notes payable .....	(48,275)
Principal paid on capital leases .....	(34,796)
Interest and fees .....	(414,481)
<b>Net cash (used) by capital activities .....</b>	<b>(1,332,510)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments .....	52,599
<b>Net cash flows provided by investing activities .....</b>	<b>52,599</b>

<b>Net change in cash .....</b>	<b>(1,678,940)</b>
<b>Cash and cash equivalents - beginning of year .....</b>	<b>10,619,971</b>
<b>Cash and cash equivalents - end of year .....</b>	<b>\$ 8,941,031</b>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2013**

**Reconciliation of net operating revenues (expenses) to net cash provided  
(used) by operating activities:**

Operating (loss) .....	(28,335,086)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenues .....	294,127
Noncash gifts .....	642,453
Depreciation expense .....	3,461,150
Bad debts .....	244,540
Loan cancellations .....	51,336
Changes in asset and liabilities:	
Receivables net .....	(163,036)
Loans to students .....	(8,088)
Deferred charges and prepayments .....	160,404
Accounts payable .....	(47,014)
Accrued payroll and related liabilities .....	(104,084)
Deferred revenues and unearned student revenues .....	(305,517)
Perkins liability .....	(24,848)
Deposits held for others .....	247,195
Accrued compensated absences .....	111,240
<b>Net cash (used) by operating activities</b> .....	<b><u>\$ (23,775,228)</u></b>

**Noncash capital and related financing activities:**

The University disposed of equipment with costs and accumulated depreciation of \$26,238.  
The University received capital gifts with a cost of \$130,989.

**The accompanying notes are an integral part of the financial statements.**

**Francis Marion University Foundation**  
**Statement of Financial Position**  
**December 31, 2012**

**ASSETS**

Cash and cash equivalents .....	\$ 2,115,052
Investments .....	19,932,168
Contributions receivable, net .....	700,270
Other receivables .....	275,175
Prepaid expenses .....	10,000
Assets held in trust by others .....	791,768
Accrued interest .....	6,935
Property and equipment, net .....	1,083,446
Other assets .....	879,887
Total assets .....	<u>25,794,701</u>

**LIABILITIES**

Accounts payable .....	36,330
Due to Francis Marion University .....	251,748
Note payable - Francis Marion University .....	216,925
Bonds payable .....	1,067,904
Total liabilities .....	<u>1,572,907</u>

**NET ASSETS**

Unrestricted .....	2,481,423
Temporarily restricted .....	8,770,435
Permanently restricted .....	12,969,936
Total net assets .....	<u>24,221,794</u>
Total liabilities and net assets .....	<u>\$ 25,794,701</u>

The accompanying notes are an integral part of the financial statements.



**Francis Marion University Foundation**  
**Statement of Activities**  
**For the Year Ended December 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Gifts and bequests .....	\$ 48,036	\$ 1,612,065	\$ 347,639	\$ 2,007,740
Trust income .....	-	42,000	-	42,000
Investment income .....	19,783	476,984	-	496,767
Management fees .....	-	75,158	-	75,158
Rent and other income .....	53,745	2,759	-	56,504
Net unrealized and realized gains (losses) on investments .....	44,755	1,031,299	-	1,076,054
Net assets released from program restrictions .....	2,475,200	(2,475,200)	-	-
<b>Total revenues, gains and other support .....</b>	<b>2,641,519</b>	<b>765,065</b>	<b>347,639</b>	<b>3,754,223</b>
<b>EXPENSES</b>				
Program Expenses .....	2,551,380			2,551,380
General and administrative .....	471,376	-	-	471,376
Fundraising .....	49,013	-	-	49,013
<b>Total expenses .....</b>	<b>3,071,769</b>	<b>-</b>	<b>-</b>	<b>3,071,769</b>
<b>Change in net assets .....</b>	<b>(430,250)</b>	<b>765,065</b>	<b>347,639</b>	<b>682,454</b>
<b>Net assets, beginning of year .....</b>	<b>2,911,673</b>	<b>8,005,370</b>	<b>12,622,297</b>	<b>23,539,340</b>
<b>Net assets, end of year .....</b>	<b>\$ 2,481,423</b>	<b>\$ 8,770,435</b>	<b>\$ 12,969,936</b>	<b>\$ 24,221,794</b>

The accompanying notes are an integral part of the financial statements.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

Francis Marion University (the University) is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

The University is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of South Carolina.

***Reporting Entity***

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

The Francis Marion University Foundation (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued financial statements of the Foundation can be obtained by sending a request to Francis Marion

University Foundation, Post Office Box 100547,  
Florence, South Carolina 29501

***Basis of Accounting***

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

For 2013, the University implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the University's 2013 financial statements; however, there was no effect on beginning net position.

The Foundation is a private nonprofit organization that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

***Cash and Cash Equivalents***

For purposes of the financial statements, the University and its component unit consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

***Investments***

The University accounts for its investments at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

The Foundation's investment securities and donated negotiable assets are stated at fair value. Investment income, net of external and internal management expenses and fees, gains and losses arising from the sale or other disposition of investments and other non-cash assets are distributed to the various funds using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

***Accounts Receivable***

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated doubtful accounts.

***Contributions Receivable***

Contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful lives of existing buildings are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life of two years or greater and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000.

Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for computer software, and 2 to 25 years for machinery, equipment, and vehicles. The University adopted, effective for the fiscal year ended June 30, 2012, a monthly depreciation convention for the straight-line method consistent with the policy of the State of South Carolina.

***Deferred Revenues and Deposits***

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

***Accrued Compensated Absences***

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as components of salaries and wages and benefits expenses in the statement of revenues, expenses, and changes in net position.

***Perkins Loans Receivable and Related Liability***

The loans receivable on the balance sheet are due to the University under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

***Net Position***

The University's net position is comprised of the following:

*Net investment in capitalized assets:* This represents the University's total investment in

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

The net assets of the Foundation are classified as follows:

*Unrestricted net assets:* The Foundation reports net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations as unrestricted net assets.

*Temporary restricted net assets:* Net assets that include gifts of cash and other assets which are received with donor stipulations that limit the use to specific program accomplishments or the passage of time.

*Permanently restricted net assets:* Net assets resulting from contributions and other inflows of assets whose use by the Foundation are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Foundation.

***Income Taxes***

The University, as a political subdivision of the State of South Carolina, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

Francis Marion University Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and is exempt from taxes under Section 501(c)(3).

***Classification of Revenues***

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues:* Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

***Sales and Services of Educational and Other Activities***

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

***Sales and Services of Auxiliary Enterprises and Internal Service Activities***

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

***Scholarship Discounts and Allowances***

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other

federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS**

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net position amounts:

<u>Statement of Net Position</u>		<u>Footnotes</u>	
Cash and cash equivalents (current)	\$ 8,294,377	Cash on hand	\$ 26,525
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	8,914,506
Grants and gifts	380,579		
Perkins loan funds	265,267		
Capital projects	808		
Total	<u>\$ 8,941,031</u>	Total	<u>\$ 8,941,031</u>

***Deposits Held by State Treasurer***

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

***Other Deposits***

The Foundation maintains its cash balances in various financial institutions. As of December 31, 2012, there were uninsured amounts at the institutions of \$458,579.

***Investments***

The Foundation investments as of December 31, 2012, are summarized as follows:

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Mutual funds	\$ 3,614,466
Equity securities	11,796,195
Corporate bonds	4,494,564
Limited partnerships	20,672
Governmental securities	6,271
Total	<u>\$ 19,932,168</u>

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Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Foundation's investment objectives and policies, as adopted by its Board of Directors.

**NOTE 3 – RECEIVABLES**

***Accounts Receivable***

The University accounts receivable as of June 30, 2013, are summarized as follows:

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Current:	
Student tuition and fees	\$ 939,141
Allowance for doubtful accounts	(475,311)
Federal grants and contracts	376,544
State and local grants and contracts	46,929
Sales and services of education departments	22,847
Auxiliary services	135,237
Capital reserve funds	1,287,259
Other	85,941
Net accounts receivable	<u>\$ 2,418,587</u>

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The amounts shown above are reported at gross with all discounts and allowances disclosed.

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of

the current account portfolio. At June 30, 2013, the allowance for uncollectible student accounts is valued at \$475,311.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

Reimbursements due for these services at June 30, 2013, are \$34,702 and are included in accounts receivable – auxiliary services.

receivable are accounted for at their estimated net realizable value or the present value of long-term pledges.

**Contributions Receivable**

Contributions receivable are comprised of pledges for gifts to support the University. Contributions

The University contributions receivable as of June 30, 2013, are summarized as follows:

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Current:		
Gift Pledges Outstanding	\$	149,800
Less discounts to net present value		26,321
Net contributions receivable	\$	<u>123,479</u>
Noncurrent:		
Gift Pledges Outstanding	\$	595,200
Less discounts to net present value		54,689
Net contributions receivable	\$	<u>540,511</u>

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The Foundation contributions receivable as of December 31, 2012, are summarized as follows:

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Unconditional promises expected to be collected in:		
Less than one year	\$	550,706
One year to five years		222,651
		<u>773,357</u>
Less discounts to net present value		43,087
Less allowance for uncollectible contributions		30,000
Net contributions receivable	\$	<u>700,270</u>

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The allowance is determined based upon management's judgment considering past history of write-offs. The discount for present value was the Foundation's effective earnings rate of 4.5%.

**NOTE 4 – LOANS RECEIVABLE**

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2013. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 5 – ASSETS HELD IN TRUST BY OTHERS**

The Foundation has a 30% interest in a trust created by an estate. The Foundation's ownership in this trust is valued at \$791,768 at December 31, 2012.

**NOTE 6 – CAPITAL ASSETS**

Capital assets activity of the University for the year ended June 30, 2013, is summarized as follows:

	Beginning Balance July 1, 2012	Increases	Decreases	Ending Balance June 30, 2013
Capital assets not being depreciated:				
Land and improvements	\$ 3,777,128	\$ -	\$ -	\$ 3,777,128
Construction in progress	2,384,205	900,505	2,790,643	494,067
Art work and historical treasures	193,908	-	-	193,908
Total capital assets not being depreciated	6,355,241	900,505	2,790,643	4,465,103
Other capital assets:				
Land improvements	10,449,109	-	-	10,449,109
Buildings and improvements	104,867,670	2,790,643	-	107,658,313
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	3,905,440	276,351	26,238	4,155,553
Vehicles	300,074	130,989	-	431,063
Total other capital assets at historical cost	119,654,188	3,197,983	26,238	122,825,933
Less accumulated depreciation for:				
Land improvements	2,728,418	608,665	-	3,337,083
Buildings and improvements	45,449,656	2,519,262	-	47,968,918
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	2,789,943	301,654	26,238	3,065,359
Vehicles	251,654	31,569	-	283,223
Total accumulated depreciation	51,351,566	3,461,150	26,238	54,786,478
Other capital assets, net of accumulated depreciation	68,302,622	(263,167)	-	68,039,455
Capital assets, net of accumulated depreciation	\$ 74,657,863	\$ 637,338	\$ 2,790,643	\$ 72,504,558



**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

***Property and Equipment***

Property and equipment of the Foundation as of December 31, 2012, consists of the following:

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Land	\$ 120,900
Building	1,109,008
Furniture and equipment	<u>67,033</u>
	1,296,941
Less accumulated depreciation	<u>213,495</u>
Property and equipment, net	<u><u>\$ 1,083,446</u></u>

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Depreciation expense of \$31,967 was recognized for the period ended December 31, 2012.

**NOTE 7 – OTHER ASSETS**

Included in the Foundation's other assets is the ownership in various parcels of real estate that are held with the intent to sell. The property is reported at a carrying value of \$878,596 as of December 31, 2012.

In addition, the Foundation has ownership in the cash surrender value of various life insurance policies valued at \$1,291 as of December 31, 2012.

**NOTE 8 – PENSION PLAN**

***South Carolina Retirement System***

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits,

and incidental benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. Employer contributions for State ORP include a 5.45% employer retirement contribution, 4.55% retiree insurance surcharge and .15% incidental death program. The University's actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

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Fiscal Year Ended	Retirement		Incidental Death	
	Rate	Contribution	Rate	Contribution
2013	10.450%	\$ 1,969,376	0.15%	\$ 28,270
2012	9.385%	\$ 1,740,420	0.15%	\$ 27,817
2011	9.240%	\$ 1,706,557	0.15%	\$ 27,704

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**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

***Police Officers Retirement System***

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the

number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	\$ 68,842	0.20%	\$ 1,157	0.20%	\$ 1,157
2012	11.363%	\$ 62,790	0.20%	\$ 1,105	0.20%	\$ 1,105
2011	11.130%	\$ 56,545	0.20%	\$ 1,016	0.20%	\$ 1,016

***Optional Retirement System***

As an alternative to membership to SCRS, newly hired State and school district employees may elect

to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9,

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Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.45% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.45% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were \$1,084,588 (excluding the surcharge) from the University as employer and \$726,378 from its employees as plan members.

The amounts paid by the University for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and

pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

## **NOTE 9 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

### ***Plan Description***

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

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provided to active state, public school district, and participating local government employees approved for disability.

***Funding Policies***

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid \$1,356,104 and \$1,228,720 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of \$18,164 and \$18,033 for the years ended June 30, 2013 and 2012, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded

through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds can be obtained from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**NOTE 10 – CONTINGENCIES, LITIGATION, AND COMMITMENTS**

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of \$655,117 at June 30, 2013, of which \$141,830 will be capitalized. The University anticipates funding these projects out of capital reserve funds and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$255,932 of authorized undrawn state capital improvement bonds.

The Foundation is a 50% residuary beneficiary of a marital trust, which has a value of approximately \$1,783,451 as of December 31, 2012. The Foundation will receive its share of any remaining assets of the trust upon the death of the primary beneficiary.

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**NOTE 11 – UNEARNED REVENUES**

Unearned revenues as of June 30, 2013, are summarized as follows:

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Current:	
Student tuition and fees	\$ 181,945
Grants and contracts	138,878
Housing rentals	108,412
Net unearned revenues	<u>\$ 429,235</u>
Noncurrent:	
Housing rental	<u>\$ 2,177,281</u>
Net unearned revenues	<u>\$ 2,177,281</u>

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**NOTE 12 – LEASE OBLIGATIONS**

Future commitments for leases as of June 30, 2013, are as follows:

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	Year Ending June 30,	Capital Lease Payments
	2014	\$ 42,846
	2015	17,732
	2016	17,732
	2017	4,433
Total minimum lease payment		<u>82,743</u>
Less: Interest		4,674
Executory and other costs		13,061
Principal outstanding		<u>\$ 65,008</u>

---

**Capital Leases**

Capital leases for various equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$173,437 as of June 30, 2013. Accumulated amortization of the leases on this equipment totaled \$119,137 at June 30, 2013, resulting in a book value of \$54,300. Current year amortization expense on capital leases was \$35,590 and is included in depreciation expense. Interest expense on capital

leases was \$3,971. The capital leases are with external parties.

**Operating Leases**

During fiscal year 2013, the University paid \$63,630 for copier leases on a cost per copy basis to external parties. The University also paid \$39,190 on equipment under cancelable operating leases, all of which was with other State agencies.

**FRANCIS MARION UNIVERSITY**  
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The Foundation entered into leases of space within its office building ending June 30, 2013. The leases allow automatic renewal unless notification is provided by the tenant. The Foundation recognized \$53,745 in rent revenue from these lease obligations of which \$34,995 was from the University for a twelve month period ending December 31, 2012.

**Capital Leases – Lessor**

During the 2006 fiscal year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per

year. No assets or liabilities related to this transaction are reflected in the University's financial statements due to immateriality of the amounts involved.

**NOTE 13 – BONDS AND NOTES PAYABLE**

**Bonds Payable**

Bonds payable consisted of the following at June 30, 2013.

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	Interest Rates	Maturity Dates	Balance
Athletic Facilities Revenue Bonds, Series 2009A	4.98%	2014 - 2029	\$ 7,700,000

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In 2010, the University issued Athletic Facilities Revenue Bonds, Series 2009A, in the amount of \$8,500,000. The proceeds of these bonds were used to construct an athletic complex. The bonds are secured by revenue derived from special student fees.

In 2008, the University defeased series 2005C State Institution Bonds by placing excess debt service on deposit to pay the bonds as they mature. The account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2013, \$295,000 of bonds outstanding are considered defeased.

The scheduled maturities of the Athletic Facilities Revenue bonds are as follows:

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Year Ended June 30,	Total Principal	Interest	Total Payments
2014	295,000	376,115	671,115
2015	310,000	361,050	671,050
2016	325,000	345,239	670,239
2017	345,000	328,556	673,556
2018	360,000	311,001	671,001
2018-2022	2,100,000	1,258,695	3,358,695
2023-2027	2,685,000	666,200	3,351,200
2028-2030	1,280,000	64,491	1,344,491
Totals	<u>\$ 7,700,000</u>	<u>\$ 3,711,347</u>	<u>\$ 11,411,347</u>

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The Foundation has outstanding JEDA Bonds, requiring quarterly interest at Prime plus 2% through August 2008. After August 2008, monthly installments of principal and interest are due with the principal due on demand at the August 1, 2022 maturity date. As of December 31, 2012 \$1,067,904 remains outstanding.

**FRANCIS MARION UNIVERSITY**  
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Maturities on the bonds payable are scheduled as follows:

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Year Ending December 31,	
2013	\$ 74,935
2014	79,299
2015	83,916
2016	88,664
2017	93,966
Thereafter	647,124
	<u>\$ 1,067,904</u>

---

**Notes Payable**

The University's notes payable consists of the following at June 30, 2013:

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	Interest Rate	Maturity Date	Balance
State Energy Plan - ARRA agreement to replace HVAC system in the Smith University Center	Zero Percent	November, 2015	\$ 40,557
ConserFund Loan agreement for upgrades to the chiller plant	3.00%	August, 2014	\$ 36,588

---

The scheduled maturities of the notes payable are as follows:

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Year Ended June 30,	Total Principal	Interest	Total Payments
2014	31,543	1,098	32,641
2015	32,083	557	32,640
2016	13,519	-	13,519
Totals	<u>\$ 77,145</u>	<u>\$ 1,655</u>	<u>\$ 78,800</u>

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**FRANCIS MARION UNIVERSITY**  
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**NOTE 14 – LONG-TERM LIABILITIES**

Long-term liability activity of the University for the year ended June 30, 2013, is as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due within One year
Bonds, note, and capital leases payable:					
Bonds payable	\$ 7,980,000	\$ -	\$ 280,000	\$ 7,700,000	\$ 295,000
Notes payable	125,420	-	48,275	77,145	31,543
Capital leases payable	99,804	-	34,796	65,008	30,274
Total payables	8,205,224	-	363,071	7,842,153	356,817
Other liabilities:					
Accrued compensated absences	2,048,976	1,500,224	1,388,984	2,160,216	1,354,719
Perkins federal capital contributions	1,550,189	-	22,219	1,527,970	-
Unearned housing rentals	2,394,105	-	108,412	2,285,693	108,412
Total other liabilities	5,993,270	1,500,224	1,519,615	5,973,879	1,463,131
Total long-term liabilities	\$ 14,198,494	\$ 1,500,224	\$ 1,882,686	\$ 13,816,032	\$ 1,819,948

**NOTE 15 – ENDOWMENTS**

***Donor Restricted Permanent Endowments***

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for specific purposes. These restrictions are discussed in Note 16. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the

endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

**NOTE 16 – COMPONENT UNIT**

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2013, and for the year then ended follows.

- |    |  |            |
|----|--|------------|
| a) | Scholarships awarded by the University and funded by the Foundation. (Includes \$34,476 owed to the University at June 30, 2013, and included in amount due from the Foundation.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.   | \$ 709,980 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes \$75,468 owed to the University at June 30, 2013, and included in amount due from the Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 360,189 |
| c) | Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. (Includes \$41,754 owed to the University at June 30, 2013, and included in amount due from the Foundation.) The University recorded these amounts as gift revenue and salary expense.                             | \$ 83,508  |
| d) | Reimbursements for University employee time and other costs paid by the University   |            |

**FRANCIS MARION UNIVERSITY**  
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on behalf of the Foundation and reimbursed by the Foundation. (Includes \$36,476 owed to the University at June 30, 2013, and included in amount due from the Foundation.) The University recorded these reimbursements as reductions of the applicable operating expenses. \$ 72,952

- e) Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$937 owed to the University at June 30, 2013, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefits expense. \$ 5,842
- f) In 2012 the University recorded gifts from the Foundation for construction of the Performing Arts Center. \$65,000 is owed to the University at June 30, 2013, and is included in amount due from Foundation.
- g) Payments by the Foundation for the benefit of the University and its staff included \$21,998 for club memberships, \$6,101 for furniture and appliances, \$130,516 for other goods and services, \$78,049 for special events and \$28,282 for travel. The University recorded these gifts in applicable operating expenses.
- h) The Foundation owes the University \$3,441 for revenue and taxes collected for the faculty-alumni facility which is included in due from Foundation.
- i) The University paid the Foundation \$50,000 for the management of the Non-Profit Leadership Institute.
- j) The University continued a loan agreement with the Foundation in which the University lent the Foundation \$200,000 (all of its endowment assets). The Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2013, the endowment lost \$6,356 which was reduced from principal. As of June 30, 2013, the outstanding principal balance is \$206,406. As of June 30, 2013, the Foundation owes the University \$3,500 from previous investment earnings. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.
- k) The University is owed \$1,643 for reimbursement of various expenses paid by the University.
- l) The University has lease agreements with the Foundation of \$34,995 for rental of office space. The University provided janitorial services, refuse disposal, and ground maintenance.

**NOTE 17 – RELATED PARTIES**

The FMU Student Housing, LLC (LLC), a single member limited liability company owned by the Francis Marion University Real Estate Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of 1112 beds and 8.96 acres of land for their 427 bed

apartment complex. The lease agreement provides for the University to be paid any net available cash flow from the operation less any amount agreed upon by the University and the LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits to the repair and replacement fund have occurred in accordance with bond documents. Rental income

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from housing operations for fiscal year 2013 is \$108,412, a portion of the advanced rent paid by the Real Estate Foundation in 2004, and an additional rental payment of \$278,590 from available net cash flow.

The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the LLC. Collections due to the LLC at June 30, 2013, are \$182,889 and are included in accounts payable.

The University provides the LLC management services related to the student housing facilities. This agreement continues for successive one year terms unless either the LLC or the University elects to terminate in writing. The negotiated fee is currently \$135,000. Under this agreement, the University pays for expenses related to the housing operation and is reimbursed by the LLC. The LLC pays the reimbursement in advance and at June 30, 2013 the unspent portion of \$93,308 was recorded as deposits held for others.

During the year, the LLC advanced the University \$469,925 for reimbursements of summer housing repairs. At June 30, 2013 the unspent portion of \$283,861 was recorded as deposits held for others.

Reimbursements for University employee time paid by the University on behalf of the Real Estate Foundation were \$44,318. The University recorded these reimbursements as reductions of the applicable operating expenses. The Real Estate Foundation paid \$362,067 for vehicles, various supplies, and contractual services on behalf of the University. The University recorded these gifts as \$39,074 in capital assets and \$322,993 in applicable operating expenses.

## **NOTE 18 – RISK MANAGEMENT**

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such

coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 19 – EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended June 30, 2013, are summarized as follows

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$ 16,601,979	\$ 5,064,382	\$ 1,097,109	\$ 30,032	\$ -	\$ -	\$ 22,793,502
Research	140,166	34,934	21,891	-	-	-	196,991
Public service	1,086,025	294,237	693,963	6,045	-	-	2,080,270
Academic support	2,245,765	679,773	2,101,078	6,017	-	-	5,032,633
Student services	2,865,772	880,348	1,648,415	26,904	-	-	5,421,439
Institutional support	3,585,412	1,155,546	919,933	46,346	-	-	5,707,237
Operation and maintenance of plant	3,515,387	1,274,366	3,374,745	1,858,123	-	-	10,022,621
Depreciation	-	-	-	-	-	3,461,150	3,461,150
Scholarships	-	-	-	-	5,513,993	-	5,513,993
Auxiliary Enterprises	3,936	478	127,130	34,043	-	-	165,587
Total operating expenses	<u>\$ 30,044,442</u>	<u>\$ 9,384,064</u>	<u>\$ 9,984,264</u>	<u>\$ 2,007,510</u>	<u>\$ 5,513,993</u>	<u>\$ 3,461,150</u>	<u>\$ 60,395,423</u>

**NOTE 20 – STATE APPROPRIATIONS**

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2013:

**NON-CAPITAL APPROPRIATIONS**

Current year's appropriations:	
Original appropriations per Annual Appropriations Act	\$ 10,837,363
Mid-Year Appropriation Reductions	(23,500)
Supplemental Appropriations	
Pay Plan Reimbursement	326,541
Health and Dental Insurance	136,708
Retirement Contribution Rate Increase Allocation	107,201
From Commission on Higher Education:	
Academic Incentive Endowment Match	4,676
SCDE-Education Improvement Act	350,000
SC Education Lottery - Technology Program	423,006
Total non-capital appropriations recorded as current year revenue	<u>\$ 12,161,995</u>

**CAPITAL APPROPRIATIONS**

Current year's capital appropriations	
Capital Reserve Funds - Deferred Maintenance	1,141,069
Capital Reserve Funds - Nurse Practitioner Program	100,000
SC Education Lottery - Deferred Maintenance	502,478
Total capital appropriations recorded as current year revenue	<u>\$ 1,743,547</u>

**FRANCIS MARION UNIVERSITY**  
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**NOTE 21 – NONOPERATING FEDERAL GRANTS**

Nonoperating Federal grants for the year ended June 30, 2013, are summarized as follows:

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Federal Pell Grant Program - 2012	\$ 21,399
Federal Pell Grant Program - 2013	<u>9,610,637</u>
Total	<u><u>\$ 9,632,036</u></u>

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**NOTE 22 – STATEMENT OF ACTIVITIES**

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

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	Year ended June 30,	
	<u>2013</u>	<u>2012</u>
Charges for services	\$ 31,064,201	\$ 30,624,755
Operating grants and contributions	12,826,881	13,432,739
Capital grants and contributions	130,989	2,639,621
Less: expenses	<u>(60,808,742)</u>	<u>(58,699,504)</u>
Net program revenues (expenses)	<u>(16,786,671)</u>	<u>(12,002,389)</u>
Transfers:		
State appropriations	12,161,995	10,668,277
State capital appropriations	<u>1,743,547</u>	<u>965,801</u>
Total transfers	<u>13,905,542</u>	<u>11,634,078</u>
Changes in net assets	<u>(2,881,129)</u>	<u>(368,311)</u>
Net assets - beginning	<u>74,911,915</u>	<u>75,280,226</u>
Net assets - ending	<u><u>\$ 72,030,786</u></u>	<u><u>\$ 74,911,915</u></u>

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Independent Auditors' Report On Compliance  
For Each Major Program And On Internal Control Over  
Compliance Required by OMB Circular A-133

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And to the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

**Report on Compliance for Each Major Federal Program**

We have audited Francis Marion University's compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Francis Marion University's major federal programs for the year ended June 30, 2013. Francis Marion University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *(OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Francis Marion University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Francis Marion University's compliance.

**Opinion on Each Major Federal Program**

In our opinion Francis Marion University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of Francis Marion University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. In planning and performing our audit, we considered Francis Marion University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

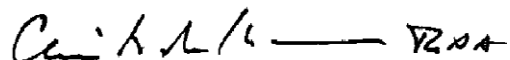
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities of Francis Marion University, a discretely presented component unit of the State South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated September 13, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Gaffney, SC  
September 13, 2013

Independent Auditors' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And to the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Francis Marion University, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprised Francis Marion University's basic financial statements, and have issued our report thereon dated September 13, 2013. Our report includes a reference to other auditors who audited the financial statements of Francis Marion University Foundation, as described in our report on Francis Marion University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The Francis Marion University Foundation's financial statements were not audited in accordance with Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Francis Marion University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis Marion University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Francis Marion University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

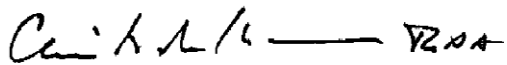


### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Francis Marion University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "C. H. H. — R. S. A.", is positioned above the date and location.

Gaffney, SC  
September 13, 2013

**FRANCIS MARION UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE PERIOD ENDED JUNE 30, 2013**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Contract Number</b>	<b>Total Expenditures</b>
<b>Direct Programs:</b>			
<b>U.S. Department of Education</b>			
Federal Supplemental Educational Opportunity Grant	84.007	PO07A123784	\$ 114,344
Federal Direct Student Loans - 2012	84.268		45,179
Federal Direct Student Loans - 2013	84.268		26,558,561
Federal Work-Study Program - 2013	84.033	PO33A123784	145,692
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A053784	1,958,119
Federal Pell Grant Program - 2012	84.063	PO63P113163	21,399
Federal Pell Grant Program - 2013	84.063	PO63P123163	9,599,327
<b>U.S. Department of Education</b>			
Higher Education-Institutional Aid	84.031P	P031P1100312	254,789
<b>U.S. Nuclear Regulatory Commission</b>			
Scholarship and Fellowship Program	77.008	NRC-HQ-12-G-38-0005	80,021
<b>U. S. Department of Energy</b>			
Nuclear Energy Research, Development and Demonstration	81.121	DE-NE0000100	5,000
<b>Total Direct Programs</b>			<u>38,782,431</u>
<b>Indirect Programs:</b>			
<b>National Aeronautics and Space Administration</b>			
Passed through the College of Charleston			
Space Grant Management Award	0.000	NNG05G168G	1,877
Passed through the College of Charleston			
Palmetto Academy	0.000	NNX10AM76H	12,403
<b>Department of Defense - U.S. Army Medical Command</b>			
Passed through Wayne State University			
Military Medical Research and Development	12.420	WSU13007	1,436
<b>National Science Foundation</b>			
Passed through the Mathematical Association of America			
Mathematical and Physical Sciences	47.049	DMS-0846477	671
Passed through The University of South Carolina			
Program to Stimulate Competitive Research	R&D 47.081	14-2439	4,237
Passed through The University of South Carolina			
Program to Stimulate Competitive Research	R&D 47.081	13-2416	5,525
Passed through The University of South Carolina			
Program to Stimulate Competitive Research	R&D 47.081	13-2396	3,684
<b>U.S. Department of Education</b>			
Passed Through South Carolina Commission on Higher Education			
Gaining Early Awareness & Readiness for Undergrad. Programs	84.334S	P334S110019	134,533
Passed Through South Carolina Department of Education			
State Personnel Development	84.323	13CQ304-01	23,177
Passed Through South Carolina Department of Education			
Mathematics and Science Partnerships	84.366B	13MS304	88,791
Passed Through South Carolina Department of Education			
Improving Teacher Quality State Grants	84.367	13TQ304-01	9,631
Passed Through South Carolina Department of Education			
Grants to States	84.027	13CO304-01	111,698
Passed Through National Writing Project Corp.			
Improving Teacher Quality State Grants	84.367D	00-SC10-SEED2012	31,783
Passed Through National Writing Project Corp.			
National Writing Project	84.928A	00-SC10 Amdt. No. 13	5,578
<b>National Center for Research Resources (NCRR)/NIH</b>			
Passed through the South Carolina Research Foundation and USC			
National Center for Research Resources	R&D 93.389	5P20RR016461-11	268,924
<b>Department of Health and Human Services</b>			
Passed through Washington University			
Aging Research	R&D 93.866	WU-13-110	11,626
<b>Total Indirect Programs</b>			<u>433,147</u>
<b>Total Federal Assistance</b>			<u>\$ 39,217,455</u>

See Notes to Schedule of Expenditures of Federal Awards.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2013**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Francis Marion University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES**

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable.

**NOTE 3 – LOAN PROGRAMS**

The Direct Loan program provides loans to students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the University. The totals of loans processed for the current fiscal year are:

	2012	2013
Direct Student Loan - Subsidized	\$ (123,423)	\$ 10,148,483
Direct Student Loan - Unsubsidized	130,167	15,053,081
PLUS	<u>38,435</u>	<u>1,356,997</u>
Total	<u>\$ 45,179</u>	<u>\$ 26,558,561</u>

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,958,119 as of June 30, 2013. The expenditures for June 30, 2013 are calculated as follows:

June 30, 2012 loan balance	\$ 1,709,159
Current year loans made	<u>248,960</u>
Total	<u>\$ 1,958,119</u>

**FRANCIS MARION UNIVERSITY**  
Summary Schedule Of Prior Audit Findings  
June 30, 2013

**Findings Relating to the Financial Statements:**

There were no findings relating to the financial statements.

**Findings and Questioned Costs Relating to Federal Awards:**

There were no findings and questioned costs relating to federal awards.

**FRANCIS MARION UNIVERSITY**  
Schedule of Findings and Questioned Costs  
June 30, 2013

**Summary of Auditors' Results:**

GAGAS

An unmodified opinion was issued on Francis Marion University's basic financial statements dated September 13, 2013.

There were no significant deficiencies or material weaknesses. No instances of noncompliance material to the financial statement were disclosed by the audit of their financial statements.

A-133

An unmodified opinion was also issued on compliance of major programs at Francis Marion University dated September 13, 2013. There were no significant deficiencies or material weaknesses in the internal control over major programs were found. Our audit disclosed no audit findings that are required to be reported under OMB Circular A-133.

The major programs at Francis Marion University are the Student Financial Aid Cluster and Higher Education-Institutional Aid (CFDA#84.031) from the U.S. Department of Education and National Center for Research Resources (CFDA#93.389) passed through the South Carolina Research Foundation and USC National Center for Research Resources. Type A programs are defined as those that expended \$300,000 or more and Type B programs are those that expended less than \$300,000. Francis Marion University's total federal awards expended for the year ended June 30, 2013 were between \$10 million and \$100 million.

Francis Marion University is a low-risk auditee according to the criteria in OMB Circular A-133.

**Findings Relating to the Financial Statements:**

There were no findings relating to the financial statements.

**Findings and Questioned Costs Relating to Federal Awards:**

There were no findings and questioned costs relating to federal awards.

<u>Financial Aid Cluster</u>	<u>Federal CFDA Number</u>
U.S. Department of Education	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program - Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268